

# Marginalen Bank

UNAUDITED FINANCIAL REPORT

Q4 2014

February 27<sup>th</sup>, 2015



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# CEO Statement

***Dear customers and investors,***

*With this Full year 2014 Financial Report we summarize another successful year for Marginalen Bank. During 2014, we welcomed more than 50,000 new customers and we look forward to continue to serve our new and existing customers with speed, simplicity, transparency and competitive financial products and services.*

*The positive financial development of improved profitability from 2013 continued also in 2014. Our total comprehensive income grew from SEK 26,5 million in 2013 to SEK 74,4 million in 2014. During the year, we experienced a satisfactory development across all our three business divisions. Just to mention a few highlights, the Consumer Bank showed continued strong growth of our unsecured lending portfolio and in the credit card business. In the Corporate Bank, the leasing portfolio developed favorably and we entered into a number of interesting leasing agreements. Our factoring products shows attractive growth prospects although factoring currently represent a smaller part of our income. In Marginalen Core, we attracted several new customers and collections on our own acquired non-performing loan portfolios showed very positive results. Operating expenses grew slightly during the year, primarily explained by an increase in personnel costs due to organizational investments. Currently, we consider the organization to be well staffed and we do not expect the same growth in personnel cost going forward. It shall also be mentioned that our administrative expenses decreased during the year as a result of previous investments in automation and continued efficiencies and cost control in the business.*

*The capitalization of the bank remains strong with a total capital ratio exceeding 15%. The capital base of the bank grew by almost SEK 600 million during the year. This growth was a result of the improved profitability, the subordinated bond issues of SEK 500 million communicated in our Q3 report, and the SEK 65 million of unconditional shareholders contribution that the bank received during the fourth quarter 2014, also communicated in our Q3 report. Maintaining a strong capitalization is prioritized and it makes us well prepared for future growth and expansion of our business.*

*In the fourth quarter of 2014, we received recognition in the market through investment magazine Privata Affärer's annual awards. We were awarded the "Årets Lönekonto" award and the explanatory statement stated that "the award goes to the small bank with the highly attractive salary account". This is one of several examples we had during the year which highlights our efforts in providing attractive services to the Swedish market.*

*All in all, we look back on a year with solid development and look forward to further develop and improve our business in 2015.*

Stockholm, February 2014  
Fernando Miranda  
CEO Marginalen Bank

## Financial highlights

- Total comprehensive income net of taxes for the full year 2014 amounted to SEK 74,4 million (26,5), representing a growth of 180% or SEK 47,9 million
  - Operating income amounted to SEK 624,4 million (556,1)
  - Operating expenses amounted to SEK 444,9 million (428,4)
  - Net credit losses amounted to SEK 119,7 million (86,2)
- At the end of 2014, total assets amounted to SEK 17 174,2 million (15 369,5), representing a growth of 12% or SEK 1 804,9 million
  - Lending to the public amounted to SEK 11 922,0 million (10 446,0)
  - Total liquidity amounted to SEK 5 058,5 million (4 585,7)
- Total equity amounted to SEK 1 109,5 million (829,1) at the end of the year, representing a growth of 34% or SEK 280,4 million
- Total capital base amounted to SEK 1 551,4 million (957,2) at the end of the year, representing a growth of 62% or SEK 594,2 million
  - Total capital ratio amounted to 15,3% (10,5) at the end of Q4 2014 and CET1 ratio amounted to 10,0% (8,4)

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**Financial calendar:**

May 21<sup>st</sup> 2015, Q1 2015 results publication

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# Financial results

- During 2014, total operating income grew by 12% to SEK 624,4 million (556,1)
  - Net interest income grew by 24%
  - Interest costs decreased by 10%
  - The bank hedges its bond portfolio. Valuations on the bond portfolio positively impacted other comprehensive income by SEK 26,1 million (4,2) during 2014. Corresponding result on hedges negatively impacted other income
- Total operating expenses grew by 4% during 2014. Personnel expenses increased while other administrative expenses decreased during the year
- Credit losses developed according to expectations and amounted to SEK 27,3 million (26,7) during Q4 2014. Credit losses also followed normal development after the one-off effect booked in Q3 2014
- Total comprehensive income grew by SEK 47,9 million to SEK 74,4 million (26,5)

Profit and loss account <sup>1</sup> SEK million	3 months		12 months	
	2014	2013	2014	2013
	Oct-Dec	Oct-Dec	Full year	Full year
Interest income <sup>2</sup>	201,5	201,4	785,7	740,6
Leasing income	15,7	13,5	65,4	48,2
Interest expense	(82,1)	(90,0)	(343,9)	(380,8)
<b>Net interest income</b>	<b>135,0</b>	<b>124,8</b>	<b>507,2</b>	<b>408,0</b>
Other income	29,8	44,1	117,2	148,1
<b>Total operating income</b>	<b>164,9</b>	<b>168,9</b>	<b>624,4</b>	<b>556,1</b>
Total operating expenses	(122,6)	(116,5)	(444,9)	(428,4)
<b>Profit before credit losses</b>	<b>42,3</b>	<b>52,4</b>	<b>179,5</b>	<b>127,7</b>
Net credit losses	(27,3)	(26,7)	(119,7)	(86,2)
<b>Operating profit</b>	<b>14,9</b>	<b>25,7</b>	<b>59,8</b>	<b>41,5</b>
<b>Net profit</b> (net of tax)	<b>11,5</b>	<b>18,7</b>	<b>48,3</b>	<b>30,7</b>
Other comprehensive income (net of tax)	(0,2)	2,3	26,1	(4,2)
<b>Total comprehensive income</b> (net of tax)	<b>11,3</b>	<b>21,0</b>	<b>74,4</b>	<b>26,5</b>

## Key drivers/statistics

C/I-ratio	74%	69%	71%	77%
Operating margin	9%	15%	10%	7%
Net profit margin	7%	11%	8%	6%
Return on equity <sup>3</sup>	4%	9%	5%	4%
Interest coverage ratio <sup>4</sup>	1,2	1,3	1,2	1,1

1. Since January 2014, loan brokerage costs are accounted for against interest revenues and capitalised in the balances within lending to the public. In 2013 (and prior years) the costs were accounted for as commission costs and the balances were accounted for as prepaid costs and accrued expenses. For the purpose of comparability between years, 2013 has been restated in order to reflect the 2014 methodology
2. For the full year 2014, interest income from a limited number of bonds in the liquidity portfolio which were acquired at a premium have been subject to re-classification from other comprehensive income to interest income. The re-classified amount amounts to approx. SEK 4 million by quarter 2014, or approx. 2% of interest income each quarter. The re-classification does not impact the total comprehensive income and has no impact on the equity. The full year 2014 figures reflects the full re-classification
3. Net profit in the period divided by average equity in the period
4. Operating profit and interest expenses divided by interest expenses

## Balance sheet

- Total assets grew by 12% during 2014
  - Loans to the public grew by 14% during 2014
  - Interest bearing securities remained at just above SEK 4 billion while loans to credit institutions grew to SEK 950,3 million (575,7)
  - As of Q4 2014, interest bearing securities consisted of 54% covered bonds and 46% municipality investments
  - Total liquidity amounted to SEK 5 058,5 million compared to SEK 4 585,7 million at the end 2013
- Public deposits grew by 8% during 2014
- Subordinated liabilities have grown on the back of AT1 and T2 bond issues. Further, in the spring of 2014, SEK 141 million of existing subordinated capital was converted into equity
- Equity ratio increased from 5,39% to 6,46% during 2014

<b>Balance sheet<sup>1</sup></b>		
<b>SEK million</b>	<b>Dec-14</b>	<b>Dec-13</b>
Loans to credit institutions	950,3	575,7
Loans to the public	11 922,0	10 446,0
Interest bearing securities	4 108,2	4 010,0
Other assets	110,8	218,4
Prepaid expenses and a/e <sup>2</sup>	83,0	119,4
<b>Total assets</b>	<b>17 174,2</b>	<b>15 369,5</b>
Public deposits	15 206,3	14 015,3
Other liabilities <sup>3</sup>	164,2	200,5
Accrued expenses and p/i <sup>4</sup>	121,3	94,5
Provisions	34,9	39,1
Subordinated liabilities	538,0	191,0
<b>Total liabilities</b>	<b>16 064,8</b>	<b>14 540,4</b>
<b>Total equity</b>	<b>1 109,5</b>	<b>829,1</b>
<b>Total liabilities &amp; equity</b>	<b>17 174,2</b>	<b>15 369,5</b>
<b>Key ratios</b>		
Return on assets, % <sup>5</sup>	0,30%	0,22%
Equity ratio, %	6,46%	5,39%

1. Since January 2014, loan brokerage costs are accounted for against interest revenues and capitalised in the balances within lending to the public. In 2013 (and prior years) the costs were accounted for as commission costs and the balances were accounted for as prepaid costs and accrued expenses. For the purpose of comparability between years, 2013 has been restated in order to reflect the 2014 methodology

2. Prepaid expenses and accrued expenses

3. Includes SEK 1,9 million of derivatives

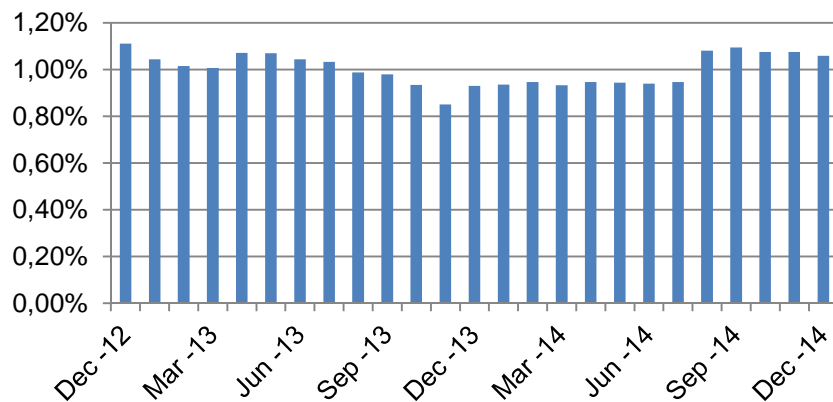
4. Accrued expenses and prepaid income

5. Net profit in the period divided by average total assets in the period

# Asset quality

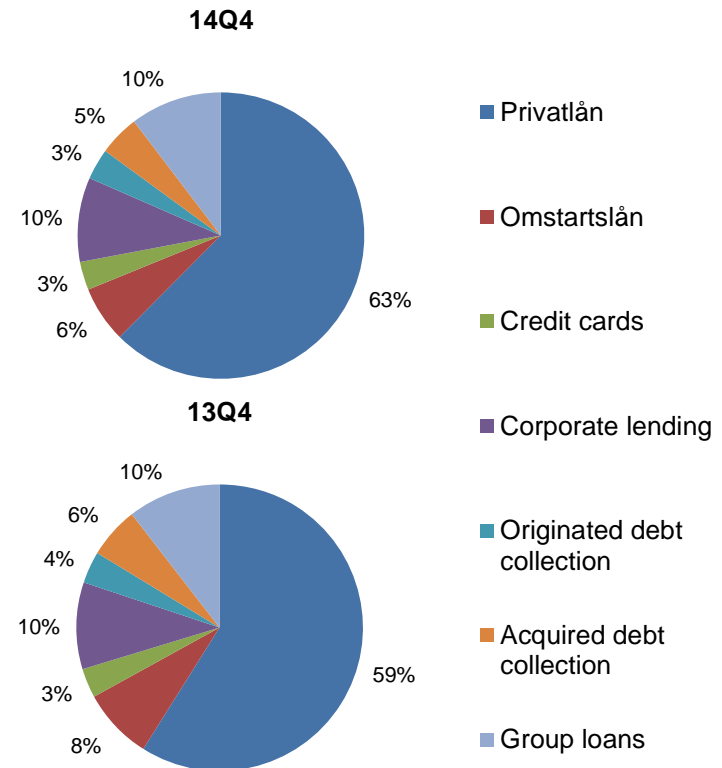
- Total lending to the public grew by 14% during 2014, amounting to SEK 11,9 billion (10,4) at the end of the year
- The unsecured consumer lending portfolio has grown by 20% since Q4 2013. This portfolio accounts for 63% of the total lending portfolio as of Q4 2014
- Corporate lending continued to grow, primarily driven by growth of the leasing portfolio which grew 14% during 2014

Development of credit risk reserves<sup>1</sup>



1. Credit risk reserves is defined as net credit losses divided by the average lending during a rolling twelve month period

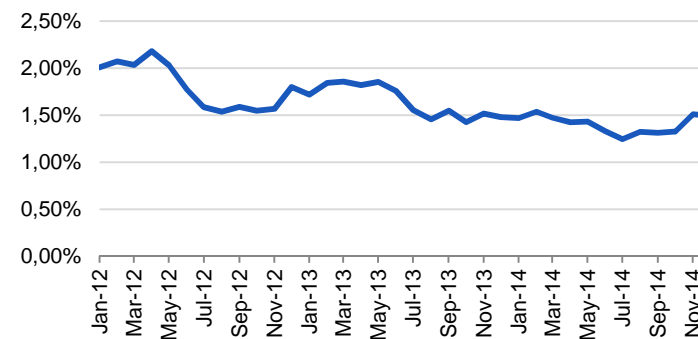
Lending portfolio – product break-down



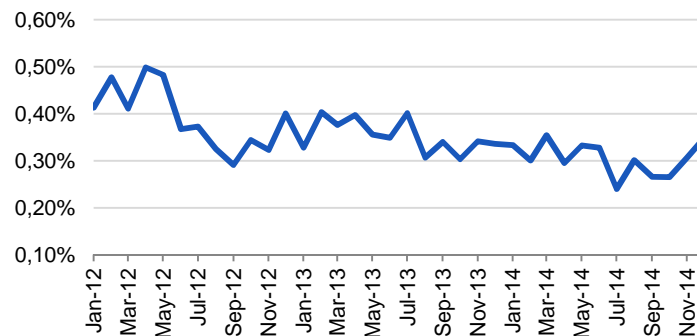
# Consumer credit – Delinquency trends

- Further improvement of credit quality in line with the strategy of targeting profitable low risk segments
- Consumer unsecured loans delinquencies have improved over the last 20 months
  - As expected, there is a seasonality effect of slightly higher levels in Q4 which gradually returns to lower levels during Q1 and Q2
- Stable delinquency levels for credit cards

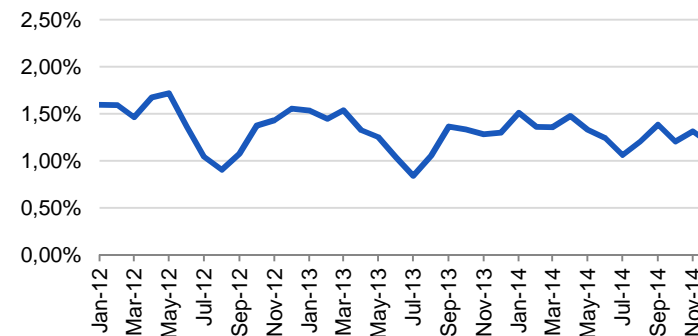
**Consumer loans, 30 days delinquencies**



**Consumer loans, 90 days delinquencies**



**Credit card loans, 30 days delinquencies<sup>1</sup>**



Note: 30 days delinquencies refer to 30 – 60 days delinquencies and 90 days delinquencies refer to 90 – 120 delinquencies

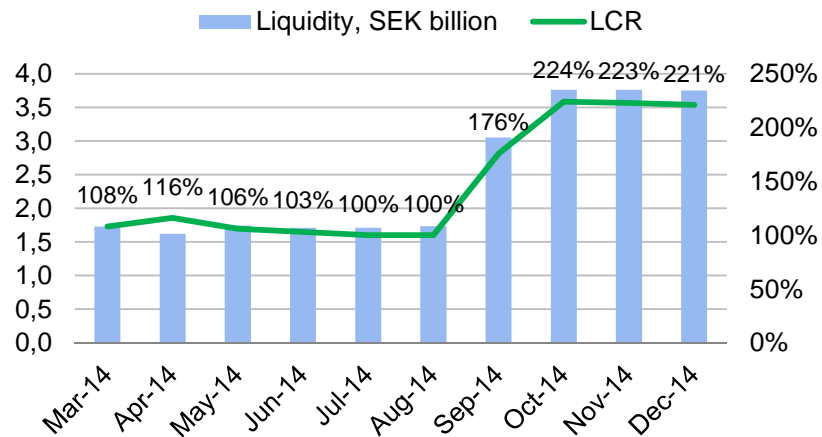
1. In Q4 2014 the bank wrote-off a limited number of old claims in the credit card portfolio. The financial impact was not significant. Hence, the "Credit card loans, 30 day delinquencies" graph has been re-stated in order to reflect the current portfolio



# Treasury and funding

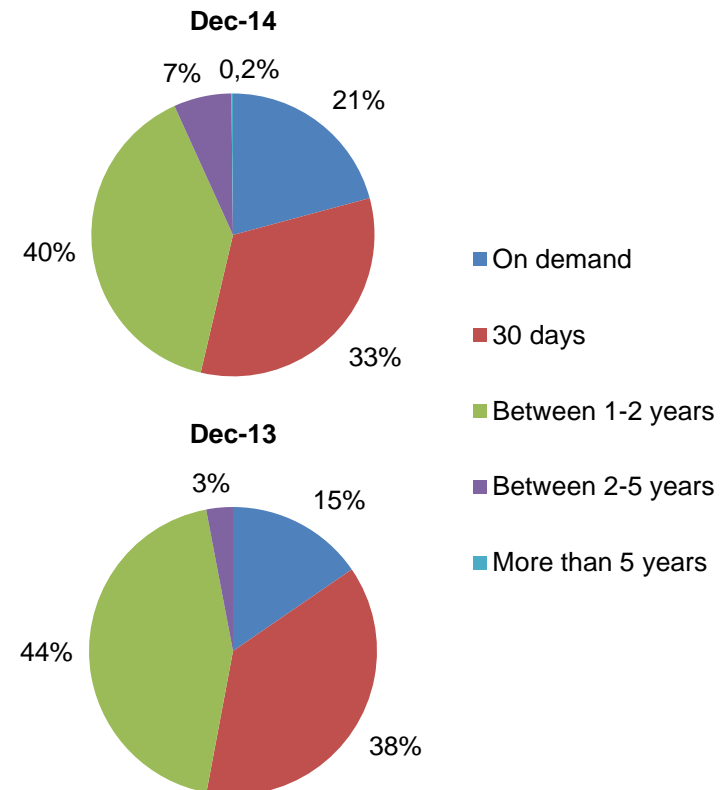
- Maintaining a sizeable liquidity portfolio with SEK 3,8 billion of qualified liquidity
  - As of Dec 2014, the LCR was 221% according to the European Banking Authority’s reporting standard COREP<sup>1</sup>
- Fixed term deposits with terms exceeding 2 years have grown from 3% to 7% during 2014. On demand retail deposits have grown slightly due to increased deposits in savings accounts and salary accounts

**Qualified liquidity and LCR**



1. Quantitative requirement of 60% as of October 2015

**Retail deposit portfolio – maturity break-down**



## Capital adequacy

- By the end of Q4 2014, the capital base amounted to SEK 1 551,4 million (957,2)
- The growth during the year is explained by the following events;
  - Increased profits
  - In October 2014, Marginalen Bank closed two bond issues of SEK 200 million AT1 bonds and SEK 300 million T2 bonds
  - In early November, Marginalen Bank received SEK 65 million of unconditional shareholders' contribution
- RWEA growth of 11% since Q4 2013
- Total capital ratio of 15,3% at the end of Q4 2014 compared to 10,5% at the end of 2013
  - CET1 ratio amounted to 10,0% (8,4)

### Capital adequacy summary

SEK million	Dec-14	Dec-13
<b>Equity</b>	<b>1 109,5</b>	<b>829,1</b>
Adjustments	(96,1)	(62,9)
CET1	1 013,4	766,2
AT1	194,9	141,0
T2	343,1	50,0
<b>Capital base</b>	<b>1 551,4</b>	<b>957,2</b>
Total assets	17 174,2	15 368,4
RWEA	10 142,0	9 096,2
Credit risk	9 048,1	8 044,8
Market risk	32,1	43,9
Operational risk	1 061,9	1 007,5
<b>Capital ratios</b>		
CET1 ratio	10,0%	8,4%
Tier 1 ratio	11,9%	10,0%
Total capital ratio	15,3%	10,5%